

FISCAL NOTE

Bill #: SB0186

Title: Const. Amend. for equity among sales, income and prop. taxes

Primary Sponsor: Butcher, E

Status: As Introduced

Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
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Fiscal Summary

FY 2004
Difference

FY 2005
Difference

Expenditures:

General Fund

\$10,500,000

Revenue:

General Fund

\$443,153,000

State Special Revenue - University System

(\$5,520,000)

Net Impact on General Fund Balance:

\$432,653,000

- | | |
|---|---|
| <input checked="" type="checkbox"/> Significant Local Gov. Impact | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts |
| <input type="checkbox"/> Dedicated Revenue Form Attached | <input checked="" type="checkbox"/> Needs to be included in HB 2 |

Fiscal Analysis

ASSUMPTIONS:

1. This bill would place constitutional amendments on the ballot for the November 2004 general election. If passed, the amendments would become effective January 1, 2005. This fiscal note assumes that the legislature would change laws as necessary to comply with these amendments before that date. Because the details of legislation to implement these constitutional amendments are not known, the revenue and cost estimates in this fiscal note are approximate.
2. This bill would require a sales and use tax of no more than 4% on goods, real estate and sales of businesses. This bill would exempt sales for resale and goods used in manufacturing from the tax. The revenue raised by such a sales and use tax would depend on the rate and on the specific items included in the tax base. A 4% sales tax on all goods would raise about \$490 million. A 4% sales tax on all goods and services would raise about \$800 million. Any exemptions would reduce the revenue. A 4% tax on sales of real estate and business property would raise about \$130 million. A lower rate would result in proportionally lower revenue. This fiscal note assumes that services are subject to the sales tax and that the rate is 4%. In fiscal 2005, the tax would be in effect for half of the fiscal year, and revenue would be \$465 million. In fiscal 2006, revenue would be \$930 million.
3. Under current law, nonresidents pay about 6.5% of income tax. This bill would exempt nonresidents from the income tax beginning January 1, 2005. In fiscal 2005, this would reduce income tax collections by \$21.847 million. In fiscal 2006, it would reduce income tax collections by \$43.346 million.

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4. This bill would allow residents who pay income tax to be exempt from property tax. This would reduce property tax payments statewide by about \$460 million beginning in fiscal 2006. This revenue reduction would be divided between the state general fund, with 17.9% of the reduction, or \$82.34 million, the university system, with 1.2% of the reduction, or \$5.52 million, and local governments and schools, with 80.9% of the reduction, or \$372.14 million.
5. Net revenue to the state general fund would be \$443.153 million in fiscal 2005. In fiscal 2006, net revenue to the general fund would be \$804.314 million
6. This bill requires any revenue received in excess of the amount budgeted by the legislature to be rebated to individuals who filed income tax returns in the previous year. Under current law, general fund revenue is projected to be less than expenditures in fiscal 2005. The difference between the \$443.153 million in net revenue from this bill and the current law deficit would be refunded in fiscal 2006.
7. The Department of Revenue would incur additional costs to administer the sales tax and the income tax rebates. The amount of these costs would depend on details of legislation that would implement these constitutional amendments, such as the frequency of filing for sales tax returns and whether taxpayers would claim rebates when they file their income tax returns or the rebates would be a separate process. Costs for a new data processing system would be approximately \$6.5 million, and annual costs for processing returns and rebates and for compliance work would be at least \$4 million.

<u>FISCAL IMPACT:</u>	<u>FY 2004</u>	<u>FY 2005</u>
	<u>Difference</u>	<u>Difference</u>
Operating Expenses		\$10,500,000
<u>Funding of Expenditures:</u>		
General Fund (01)		\$10,500,000
<u>Revenues:</u>		
General Fund (01)		\$443,153,000
State Special Revenue (02) - University System		\$(5,520,000)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>		
General Fund (01)		\$432,653,000
State Special Revenue (02)) - University System		\$(5,520,000)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

This bill would reduce funds available for local governments and school districts by \$372.14 million beginning in fiscal 2006, and the reduction would grow over time.

LONG-RANGE IMPACTS:

In fiscal 2006 and following fiscal years, this bill would provide approximately \$800 million in additional net revenue to the general fund and would require that any receipts in excess of budgeted expenditures in the previous fiscal year be rebated to persons filing income tax returns. It would reduce funding to the university system by approximately \$5.5 million each fiscal year, and would reduce funding for local governments and school districts by approximately \$370 million each fiscal year.

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TECHNICAL NOTES:

1. Section 1 requires revenue in excess of the amount budgeted by the legislature to be rebated to individuals who filed income tax returns in the previous years. It is not clear whether this refers to the general fund or all budgeted funds.
2. The information technology (IT) project required to implement this legislation would require the review and approval of the Chief Information Officer (CIO) as provided for in 2-17-512, MCA.
3. Implementation of this tax will require the Department of Revenue to implement a computer system to automate the administrative requirements of registration, return processing, customer and revenue accounting, and compliance activities. The expenditure will involve millions as shown by this estimate. Projects of this size are normally pursued through a Request For Proposal procedure outlined by the Department of Administration and can routinely take up to 6 months of careful planning and review before selecting a vendor or product that meets the department's requirements.
4. To be prepared to administer a sales tax beginning January 1, 2005, the Department of Revenue would need to acquire a new data processing system and hire new staff before the tax goes into effect. This could not be done between the time these proposed amendments would be voted on in November 2004 and January 1, 2005. To ensure that the tax could be implemented on the effective date, the legislature would need to direct the department to begin implementing the tax before the election and appropriate funds for the department to do so.